

UNDERSTANDING YOUR GOOD FAITH ESTIMATE (GFE)

All mortgage lenders are required by the Real Estate Settlement Procedures Act (RESPA) to provide you with a **Good Faith Estimate** of the fees due at closing within three days of applying for a loan. The form of the estimate and some line item descriptions may vary by lender so review them carefully. These mortgage fees, also called settlement costs, cover every expense associated with your home loan including “points”, appraisal fees, credit report fees, escrow charges, inspections, title insurance, taxes, and other charges.

In addition to the comprehensive information available on our website at www.justhotrates.com, you should refer to this document whenever you are evaluating loan costs. This document should also be used in conjunction with our *“How To Read And Evaluate Your Good Faith Estimate”*. It provides detailed information about each line-item charge on the form.

Below is a line-by-line description of the various items you will find on the GFE form:

Line 801 - Loan Origination Fee:

If your lender originates and also funds your loan directly, they will enter their fee here. The traditional loan origination fee is 1.00% of the loan amount. Brokers should not use this line item. If they do, then they should not charge you a Mortgage Broker Fee.

Line 802 - Loan Discount:

This line item is used to disclose the *wholesale “points”* required to purchase the interest rate you have chosen for your loan program. It is a one-time fee and the leading source of pricing manipulation and the one you should scrutinize. Unscrupulous lenders will inflate it to cover other hidden costs as well as a Yield-Spread-Premium. Even though your lender may tell you these loan discount “points” represent the wholesale price of your loan, how do you really know unless you can see their wholesale rate sheet?

Line 803 - Appraisal Fee:

Every home purchase requires that an appraisal of value is completed. The appraiser’s fee will vary according to the size of the home, its location, and other variables. Take a look at the *Closing Costs* page on our website at www.justhotrates.com for more details.

Line 804 - Credit Report:

Lenders define a *Standard Factual Data Credit Report* as one that includes credit data from three of the major credit repositories such as Trans Union, Equifax, and Experian. Most individual credit reports cost \$45 - \$55, depending on the credit reporting agency used.

Line 805 - Lender's Inspection Fee:

Charged when you build or buy a home under construction. It pays for routine inspections the lender requires to monitor construction and release funds as work progresses. The fee varies from lender to lender.

Line 808 - Mortgage Broker Fee:

This one-time fee is charged for the loan origination services rendered by the broker. It is referred to as a "point" or "points" and calculated as a percentage of your loan amount. One "point" is equal to 1.00 %. It can also be referred to in terms on "basis points". One basis point is equal to 1/100 of a percent, so there are 100 basis points in one "point".

If a mortgage broker charges this fee, there should not be a charge listed on line 801 - Loan Origination Fee. If there is, you may be getting double-dipped on your loan costs. Refer to the "*Covert Home Loan Pricing Practices EXPOSED*" page on our website.

Line 809 - Tax Related Service Fee:

Lenders often engage a third party company to monitor and/or handle the payments of your property tax bills. The Tax Service Fee is a one-time fee set by the lender and generally costs \$50 to \$120 and covers the cost of this service. The purpose of the service is to ensure that your real estate taxes are always paid on time, and to prevent tax liens from occurring.

If your taxes are impounded, the Tax Service Agency provides your loan servicer with your tax bills so they can pay your taxes on time. If you pay your taxes yourself, the agency will monitor your tax rolls for the life of your loan, and informs the lender if they ever become delinquent so they can take corrective action to prevent their lien position.

Line 810 - Processing Fee:

Most lenders charge \$300 to \$600 as a loan processing fee, depending on applicable law, to increase their Loan Origination Compensation from your loan. If you cancel your loan in the face of a legally disclosed loan processing fee, they may attempt to collect it from you before they transfer their loan package to your newly selected lender. San Juan Mortgage does not charge a loan processing fee.

Line 811 - Underwriting Fee:

This fee is charged by the wholesale lender, or the lender funding your loan. Mortgage brokers typically don't close loans with their own funds so it would be inappropriate for them to collect this fee in their own name. Most lenders charge between \$250 and \$650 for their underwriting fee.

Line 812 - Wire Transfer Fee:

After your loan is approved and you have signed your closing documents, the lender will fund it. To significantly speed the closing of your loan, the closing funds are then transferred from the lenders loan funding bank account to the escrow company via an electronic “wire”. The wire transfer usually takes a few hours to get to your escrow company - longer on Fridays and toward the end of the month. The receiving account charges a nominal fee, usually between \$15 and \$50.

Line 813 - Yield-Spread-Premium:

Yield-Spread-Premiums can burn a giant hole in your pocketbook. Our internet website is dedicated to educating our customers about this practice. Check it out...

Line 814 - Courier Service:

Your mortgage broker, bank, or lender may send you their loan package using an overnight service such as UPS or FedEx and most will charge you for it. When your loan is processed, they will send it to their underwriter, also using an overnight courier service. Most will also charge you for this delivery. San Juan Mortgage does not charge for overnight deliveries.

Line 815 - Rate Lock Fee:

Most lenders do not charge a fee for locking in your interest rate. Some will impose a rate “lock” fee on refinances during times when interest rates are experiencing high downward market volatility. Some of these may even be non-refundable. Any fee charged for this purpose would be set “subjectively” by the lender - often as much as 1.00% of your loan amount. It would be imposed only to discourage refinance borrowers from cancelling an existing loan to get a lower rate from another lender.

If you are refinancing your primary residence and find yourself in just such a situation, we can show you how to get out of that loan without losing your “lock” fee, even if they told you it’s non-refundable.

Line 816 - Impound Account Waiver Fee:

If you opt not to have your payments “impounded” for taxes and insurance, your lender has the right to charge you a fee. Most charge 0.25%, so on a \$100,000 loan, the fee would be \$250.00. These fees are set by the lenders.

Line 817 - Loan Document Preparation:

This fee is charged by the lender that prepares your loan closing documents, including your final loan disclosures, closing instructions, and all others required to ensure that title to the property passes successfully. The fee depends on the lender and ranges \$150 - \$350. This fee is not the same as the Loan Processing Fee charged by the loan originator.

Line 818 - Flood Certification Fee:

Lenders need to confirm that the property they are financing does not lie in a flood zone, as defined by FEMA. If your property is subject to a possible flood hazard, the lender will require that you obtain flood insurance in addition to your homeowner's insurance. This fee covers the cost of a report to determine if the property is in a flood-risk area. The Federal Emergency Management Agency (FEMA) designates flood zones to indicate that certain areas have a high risk of flood damage, such as those near lakes and rivers, for example.

Line 901 - Interest for _____ days:

Lenders usually require borrowers to pay the interest that accrues from the date of settlement to the first monthly payment. To calculate the amount required, subtract the proposed settlement date from the end of the month, times your proposed interest rate divided by 365, or ask your escrow officer for the number of days that will elapse between the closing date and the date of your first payment, as well as the "per-diem interest" amount. Remember that you owe interest on your loan from the day it closes, not the day you make your first regular monthly payment.

Line 902 - Mortgage Insurance Premium:

If your loan exceeds 80% of the purchase price or value (whichever is lower) the lender may require you to pay for mortgage insurance. You will need to pay your first year's mortgage insurance premium or a lump sum premium that covers the life of the loan, in advance, at settlement. To learn more about Private Mortgage Insurance, go to our "*Closing Costs*" page and under "*Other Loan Costs*", click the "*MGIC RATE FINDER*" link.

Line 903 - Hazard Insurance Premium:

Hazard insurance protects you and the lender against loss due to fire, windstorm, and natural hazards. Lenders often require the borrower to bring to settlement a "paid-up" first year's policy or to pay for the first year's premium at settlement. The requirement is set by your lender and the selection of the insurance company is yours.

Line 904 - Flood Insurance:

If the lender requires flood insurance, it is usually listed here. You can double-check any requirement for flood insurance by examining your property appraisal. On page one of your appraisal under “*SITE*”, there are two boxes next to “*FEMA Special Flood Hazard Area*”. If your appraisal has a check in the “*YES*” box, you’ll need flood insurance. If the box is checked “*NO*” but the lender requires it, you should point this section out to them and ask why they need it.

Line 905 - VA Funding Fee:

If you are a Vet or active duty, the lender requires this fee to offset the cost for the extra paperwork required for VA loans. This cost ranges from 3% to 5% of the new loan amount.

Lines 1001-1004 - Reserves Deposited with Lender:

If you are required to "impound", you will need to give 1 to 6 months of your Hazard Insurance, Property Taxes and, if required, Mortgage Insurance premiums to the lender at time of settlement. Your Title Company will give you this number along with all the other costs BEFORE you go to settlement via a HUD 1 form.

Line 1101 - Closing or Escrow Fee:

Title charges may cover a variety of services performed by title companies and others. Your particular settlement may not include all of the items below or may include others not listed. This fee is paid to the settlement agent or escrow holder (Title company). Responsibility for payment of this fee should be negotiated between the seller and the buyer. Consult your Escrow Officer for information on their service charges.

Line 1105 - Document Preparation Fee:

This is a separate fee that some title companies charge to cover their costs for the preparation of final legal papers, such as a mortgage, deed of trust, note, etc. Consult your escrow officer for the costs associated with their services.

Line 1106 - Notary Fees:

Notary fees are customarily provided free of charge by the escrow company.

Line 1107 - Attorney's Fees:

You may be required to pay for legal services provided to the lender such as an examination of the title binder. Occasionally, the seller will agree in the sales contract to pay part of this fee. The cost of your attorney and/or the seller's attorney may also appear here. If the lender requires an attorney's involvement, the fee will appear on this part of the form, or on lines 1111, 1112, or 1113. Consult your attorney for a cost estimate.

Line 1108 - Title Insurance:

The total of "Lender's Title Insurance" and "Owners' Title Insurance" is shown here. The lender requires a loan policy to insure its mortgage interest in your property against title defects and other risks. Although the premium for the loan policy is usually included in your closing costs, it does not protect you. Your best protection against potential title defects that could deprive you of your ownership rights is an owner's title insurance policy.

For a one-time premium, an owner's policy remains in effect for as long as you or your heirs own the property. When you want to sell or refinance your property, the policy insures against loss or damage that you may suffer if the new buyer or lender challenges your title as unmarketable. In the event of a claim, the title insurance company will either correct covered title problems or reimburse you for insured losses and will defend against any lawsuits attacking your title as insured.

An owner's policy may save you thousands of dollars in legal costs. Owner's coverage takes the risk out of acquiring property and gives you the ultimate in peace of mind. Generally speaking, Owners' Title Insurance is less expensive when purchased at the same time and from the same company as the Lenders Title Insurance.

Lines 1201-1204 - Government Recording, City, county and/or state tax stamps, and Transfer Charges:

These fees may be paid by you or by the seller, or split, depending upon your sales contract with the seller. The buyer usually pays the fees for legally recording the new deed and mortgage (line 1201). Transfer taxes, which in some localities are collected whenever property changes hand or a mortgage loan is made, can be quite large and are set by state and/or local governments. City, county and/or state tax stamps may have to be purchased as well (lines 1202 and 1203.) Usually these are shared equally between buyer and seller.

Line 1301 - Survey:

The lender may require that a surveyor conduct a property survey if there are any questions raised by the Title Report. The title report might indicate, for example, multiple easements and rights-of-way surrounding the property. Although very rare, an underwriter may require a survey if they feel their lien priority could be challenged at some time in the future as a result of a property line dispute. This is a protection to the buyer as well. Usually the buyer pays the surveyor's fee, but sometimes the seller may pay this.

The price of a survey depends on the location of the property and the number of corners to be located. It's not uncommon for a survey to cost \$2,500.

Line 1302 - Pest and Other Inspections:

Generally, an underwriter relies on information contained in an appraisal to indicate the possible need for a pest inspection, if not automatically required by the loan guideline. If your home is a 30 year old wood structure in a wooded area, for example, the underwriter would have reason to believe that termites may be present. If required by the Lender, this fee is to cover inspections for termites or other pest infestation of your home. Depending on the type of inspection required, the cost may range between \$100 and \$300.

For more information on **GOOD FAITH ESTIMATES**, try these links:

http://www.dfi.wa.gov/consumers/education/home_loan/home_loan_gfe.htm

<http://www.safeborrowing.com/legalease.html>